

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1741 – HB 1972

February 7, 2016

**SUMMARY OF ORIGINAL BILL:** Requires the Governor to appoint an Executive Internal Auditor (EIA), who shall serve at the pleasure of the Governor, to develop comprehensive internal audit standards for executive branch agencies; to provide best practices training for internal audit staff on internal audit standards, internal controls, and enterprise risk management; to provide peer review for internal audit staff within executive branch agencies consistent with standards set by the Institute of Internal Auditors; to review and approve internal audit plans for executive branch agencies; and to coordinate internal auditors on statewide issues.

Authorizes the appointed EIA to exercise jurisdiction and control over the internal audit staff and the internal audit function of any executive branch agency. To the extent the appointed EIA exercises such jurisdiction and control, then the agency's internal audit staff shall report to and serve at the pleasure of the EIA. To the extent the appointed EIA does not exercise such jurisdiction and control, then the agency's internal audit staff shall report to and serve at the pleasure of the commissioner; provided the EIA shall participate in all evaluations of internal audit staff under the jurisdiction and control of the commissioner. If an individual serves simultaneously as the commissioner of an agency and as the EIA, then the internal audit staff within the commissioner's agency shall report to and serve at the pleasure of the commissioner; provided the Governor, or the Governor's designee, participates in all evaluations of internal audit staff under the jurisdiction and control of an individual serving in both capacities.

Prohibits a commissioner from terminating any person serving as internal audit staff in an executive branch agency without the approval of the EIA. Prohibits a commissioner serving simultaneously as the EIA to terminate any person serving as internal audit staff within the commissioner's agency without the approval of the Governor, or the Governor's designee.

Requires the Governor to utilize existing executive branch resources and personnel in the implementation of this section. Authorizes the Commissioner of the Department of Finance and Administration, within existing resources, to develop cost allocation procedures and interagency billing for services associated with implementation. Declares that nothing in this section shall expand or diminish the authority of the Comptroller of the Treasury or the offices of the Comptroller of the Treasury. Defines "executive branch agency" or "agency" to mean any unit organization of the executive branch of the state government, but excludes political subdivisions of the state, institutions under the control of the University of Tennessee or the Tennessee Board of Regents, the judicial branch, and the legislative branch.

## **FISCAL IMPACT OF ORIGINAL BILL:**

Other Fiscal Impact – Possible interagency transfers of funding between executive branch departments. The extent and timing of any such transfers, as well as the specific state accounts that would be impacted, is unknown and dependent upon the actions taken by the appointed Executive Internal Auditor and the Commissioner of Finance and Administration. Any net fiscal impact to state government is considered not significant.

**SUMMARY OF AMENDMENT (011855):** Deletes and rewrites the bill such that the only substantive changes are as follows: (1) adds language requiring the EIA to include other standards deemed appropriate when developing comprehensive internal audit standards for executive branch agencies; (2) changes from July 1, 2016, to October 1, 2016, the date by which management and operations for the internal audit function of each executive branch agency is to be established in accordance with the provisions of the amended bill; (3) limits the Governor’s ability, or the Governor’s designee’s ability, when an individual serves simultaneously as the commissioner of a state agency and the EIA, to only participate in the evaluation or termination of any internal audit director, rather than in the evaluations or terminations of any internal audit staff; (4) adds definitions for “Governor’s designee” and “internal audit director”; and (5) changes the effective date of the legislation from effective upon becoming law to October 1, 2016.

## **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

**Unchanged from the original fiscal note.**

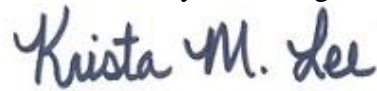
Assumptions for the bill as amended:

- According to the Governor’s Office, a current state employee will be appointed to the position of EIA; and the appointed employee will have the capacity to absorb the additional responsibilities of the EIA as specified in the provisions of the bill.
- The appointed employee is assumed to not receive any additional premium pay or receive any additional benefits for taking on the additional responsibilities of the EIA in conjunction with their current workload. As a result, any change in state expenditures within the Governor’s Office, or within any department or state agency, from which the EIA might be appointed, is estimated to be not significant.
- Pursuant to Section 1(i) of the amended bill, the Commissioner of Finance and Administration (F&A) will be authorized, within existing resources, to develop cost allocation procedures and interagency billing for services when the EIA exercises the authority, granted in Section 1(b)(2) of the amended bill, to assume jurisdiction and control over the internal audit staff and the internal audit function of any executive branch agency.

- The Governor's Office responded by indicating that it anticipates transferring the amounts budgeted or incurred by an agency's audit office and would then only bill the actual costs associated with the on-going operation of that agency's audit office.
- To the extent the EIA assumes jurisdiction and control over the internal audit staff and the internal audit function of any executive branch agency, there could be both one-time and recurring interagency transfers of funding. Any such amounts that will be transferred and the timing for which any transfer would occur are unknown. However, any net fiscal impact to state government is estimated to be not significant.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/rnc